IN THE

Supreme Court of the United States

OCTOBER TERM, 1977

No. C77-1262

LOUIS BECK,

Petitioner,

vs.

PANTHER PUMPS & EQUIPMENT COMPANY, INC.,
(NOW MORRISON PUMP CO., INC.),

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

BRIEF FOR RESPONDENT IN OPPOSITION.

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OPINIONS BELOW.

The opinion of the District Court (Pet. App. A46) is reported at 424 F. Supp. 815 (N. D. Ill. 1976). The opinion of the Court of Appeals for the Seventh Circuit (Pet. App. A1) is reported at 566 F. 2d 8 (7th Cir. 1978).[1]

JURISDICTION.

The jurisdictional requisites are adequately set forth in the petition.

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1. Throughout this opposition, "Pet. App." refers to petitioner's appendix .

QUESTIONS PRESENTED.

(1) Whether a party bound by an injunction against future infringement of patents is guilty of civil contempt for the manufacture and sale of an equivalent device.

(2) Whether a successor in interest defined by the substantive law of the state may be substituted as a party pursuant to the provisions of Rule 25(c), *Federal Rules of Civil Procedure.*

STATUTE AND FEDERAL RULES INVOLVED.

Title 28, Section 1291; Rules 25(c) and 60(b), Federal Rules of Civil Procedure.

STATEMENT OF THE CASE.

This litigation was necessitated by the activities of Louis Beck, petitioner, prior to and subsequent of a judgment being entered in this action by the district court on November 24, 1970 assessing damages of $150,000 against the now dissolved Hydrocraft, Inc. for patent infringement (Pet. App. A77). An injunction was entered against Hydrocraft, its officers, agents, successors and others prohibiting future infringement of the patents in suit (Pet. App. A77).

The inventory of Hydrocraft, comprising 11½ tons of pump parts then present in Illinois and constituting substantially all of the assets of the company, were shipped during the period between November, 1970 to January 5, 1971 to petitioner in Ohio. At the same time petitioner, previously president and a one-third owner, acquired 100% control and ownership of Hydrocraft for $200.00 (Tr. 65, 66, 77, 79, 618 and 620).

Petitioner then organized a solely owned corporation, Universal Spray Systems, Inc., in Ohio on January 8, 1971 which eventually received the entire inventory of defendant Hydrocraft (Tr. 1233, 1280, 1282 and 1311).

Universal Spray was organized to sell Spraymate parts and remained in the paint pump business by the manufacture and sale in the United States of a slightly modified version of the Spraymate identified as a Spraymate B pump using the parts of the Hydrocraft inventory (Tr. 1234, 1235 and 1302).[2]

The inventory of Hydrocraft was transferred from Illinois to a company under control of petitioner without notice to respondent.

When asked in open court whether he thought the subject assets belonged to respondent because of the judgment of November 24, 1970, petitioner testified "Yes at the time I thought they were going to come and get it." (Tr. 1286).

Respondent did not become aware of the transfer until 1975 (Tr. 221, 224, 227 and 228).

Respondent filed a motion for a rule to show cause why petitioner and his corporate entities should not be held in contempt for violating the permanent injunction of November 24, 1970 for selling the so-called modified paint pump, the Spraymate B. In an order dated April 1, 1976, the District Court held that it had jurisdiction over petitioner and he was bound by the injunction. Petitioner did not appeal this order to the Seventh Circuit.

Prior to the commencement of the contempt hearing, respondent filed a motion under Rule 25(c), Fed. R. Civ. P., to substitute or add petitioner as a party defendant in the action as a successor in interest to the then dissolved Hydrocraft. The judgment of $150,000 had gone unsatisfied inasmuch as Hydrocraft possessed no assets after the transfer of its inventory to petitioner in late 1970 and early 1971.

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2. Spraymate was the trademark used in conjunction with the original paint pumps of defendant Hydrocraft held to be an infringement by the judgment of November 24, 1970.

ARGUMENT.

In the petition, this Court has been deluged by a multitude of baseless issues with apparent faint hope by petitioner that one of these somehow provides a basis to justify the grant of certiorari. But the issues presented in this action have limited significance not warranting review by the Court. Contrary to the allegations of petitioner, the holding of Seventh Circuit Court is clearly consistent with prior decisions and presents no conflict or important constitutional question.

The Seventh Circuit reversed the District Court on both the issues of contempt and substitution of parties because the lower court had committed clear errors of law in discharging petitioner from the rule to show cause and denying the motion to substitute petitioner as a successor in interest pursuant to Rule 25(c), Fed. R. Civ. P.

1. Petitioner Was in Violation of Injunction of November 24, 1970.

With reference to the question of contempt, petitioner totally misconstrues the basis upon which the Seventh Circuit reversed the lower court on this issue. The circuit court correctly noted that the well-settled test in determining whether contempt exists in a patent case is *to compare the structure and function of the purported new device with the original infringing product to determine if equivalency exists. Schlegel Manufacturing Company* v. *U. S. M. Corp.*, 525 F. 2d 775, 781 and 782 (6th Cir. 1976); *cert. den.* 189 U. S. P. Q. 343; *McCullough Tool Co.* v. *Well Surveyes, Inc., et al.*, 395 F. 2d 230 (10th Cir. 1968); *cert. den.* 159 U. S. P. Q. 799.

Equivalency in a patent infringement sense has been clearly defined by this Court in the leading case of *Graver Tank & Mfg. Co.* v. *Linde Air Products Co.*, 339 U. S. 605, 607-08 (1950). At the contempt hearing, petitioner attempted and

succeeded in introducing a new defense of non-infringement and relitigated the issue of infringement. The relitigation involves whether the accused contemptuous device achieved a so-called level of static vapor pressure during operation.

Petitioner attempts to convince the Court that respondent took the position at the original infringement trial that the paint pump must achieve this level of vapor pressure to infringe the patents-in-suit. *This is directly contrary to the actual testimony of both expert witnesses of plaintiff and defendant at the original trial at which infringement was ultimately found.* The condition of vapor pressure is not set forth in the specification or the claims of either of the patents in suit. During the 1970 infringement trial, both the plaintiff's expert and defendants' expert agreed that "cavitation" as defined in the patents does not require the achievement of vapor pressure (Original Tr. 306, 314, 785 and 786).

In the case of *Commissioner of Internal Revenue* v. *Sunnen*, 33 U. S. 591, 597 (1948), this Court aptly expouses the doctrine of res judicata:

> "The rule provides that when a court of competent jurisdiction has entered a final judgment on the merits of a cause of action, the parties to the suit and their privies are thereafter bound 'not only as to every matter which was offered and received to sustain or defeat the claim or demand, but as to any other admissible matter which might have been offered for that purpose."

The doctrine of res judicata is fully applicable to patent infringement cases, *Hart Steel Co.* v. *Railroad Supply Co.*, 244 U. S. 294, 297 (1917). It is also well settled that the issues of validity and infringement are not subject to collateral attack in a contempt proceeding. *U. S. ex rel. Shell Oil Co.* v. *Barco Corp.*, 430 F. 2d 998, 1002 (8th Cir. 1970).

Thus, petitioner erroneously was permitted by the district court to introduce a new defense of non-infringement relating to vapor pressure which was prohibited by res judicata.

In addition, the Seventh Circuit also noted that this new defense of petitioner was based on physical tests of the new pump alone which were not performed on the original infringing device. Petitioner and the District Court accordingly failed to consider the equivalency test in determining contempt as required by countless authorities.

Inasmuch as the comparative tests conducted by the experts of respondent on both the original infringing pump and the so-called new device clearly established equivalency, the Seventh Circuit appropriately found that indeed contemptuous acts had been perpetrated in violation of the injunction.

2. Petitioner Was Properly Substituted as a Party Pursuant to Rule 25(c).

As on the issue of contempt, petitioner presents an abundance of allegations on the issue of substitution pursuant to Rule 25(c) to rationalize consideration of this action by the Court. But the Seventh Circuit below ordered substitution of the petitioner based on an unquestionable proper analysis of the appropriate substantive law. The question of substitution here has no important ramifications meriting review.

Applying the proper standard, the Seventh Circuit found that petitioner was successor in interest of the dissolved original defendant, Hydrocraft, Inc., within the meaning of Rule 25(c), Fed. R. Civ. P.

The contention of petitioner that the appellate court could not review the order of the district court denying substitution is wholly meritless. The case of *Virginia Land Company* v. *Miami Shipbuilding Corp.*, 201 F. 2d 506 (5th Cir. 1953) relied on by petitioner stands for the proposition that an order denying substitution is not a final decision within the meaning of the statute (28 U. S. C. 1291). However, as with any interlocutory order, appeal of a decision refusing substitution must await final judgment in the action before appeal which occurred

in this action. (3B *Moore's Federal Practice*, § 25.03[2] at 25-111). None of the cases cited by petitioner remotely support the allegation that an interlocutory order can never be reviewed by the court of appeals.

3. Petitioner Is Not Denied Due Process by Substitution.

Petitioner asserts that he is denied the Constitutional right of due process because, by being substituted, he is bound by the unexecuted original judgment assessed against Hydrocraft. Such a contention totally ignores the relationship of the petitioner to the dissolved defendant through which liability under the original judgment is created. Through the consideration of numerous actions of petitioner, the Seventh Circuit applied the appropriate substantive law and found that petitioner was a successor in interest to Hydrocraft and its privy.

Petitioner secretly acquired substantially all the assets of Hydrocraft without consideration during pendency of the original infringement action through a fraudulent conveyance as defined by Illinois law. *The fraudulent transfer was only one element among many establishing petitioner as a successor.*

Petitioner further admitted in open court that these assets belonged to respondent because of the entry of the judgment of November 24, 1970 but did not notify respondent of the transfer. At the same petitioner acquired for $100.00 complete control of Hydrocraft which was rendered a worthless shell without assets by virtue of the transfer. While Hydrocraft was insolvent and under his 100% stock ownership, petitioner filed a motion for relief under Rule 60(b) from the judgment of November 24, 1970, pursued an unsuccessful appeal to the Seventh Circuit and later petitioned this Court for certiorari. Thus, petitioner was no stranger to the original litigation and actively controlled it by seeking post-judgment relief and appellate review of the judgment against his predecessor, Hydrocraft.

Many of the parts of the transferred inventory by Hydrocraft were subsequently used by his solely owned Universal Spray to

manufacture the paint pump found to be in violation of the injunction. All of the foregoing actions of petitioner were carried out with an intent to avoid execution of the judgment of November 24, 1970.

The district court erroneously believed that the petitioner had the right to present defenses against the imposition of the liability created by the original judgment. This position of the district court totally ignored the privity relationship between Hydrocraft and petitioner and his active participation in the original litigation by which the petitioner was bound by the judgment and could not attack it by reason of res judicata. *Commissioner of Internal Revenue* v. *Sunnen, supra.*

Applying the applicable substantive state law in conjunction with this unusual factual pattern, the Seventh Circuit properly reversed the denial of the motion for substitution of defendant. In his decision, Judge Markey makes the following persuasive observation:

> "For $200, Beck became owner of 100% of Hydrocraft's stock. He then proceeded to drain off its only significant asset. At the some time, he caused Hydrocraft to pursue an appeal of this court, seeking a reversal of the judgment. If the judgment were reversed, he would pay nothing. If it were affirmed, he would pay also nothing, because he was 'not a party' and he had made Hydrocraft judgmentproof. One who attempts fraudulently to evade the judgment of a court does so at his peril. After the entry of judgment in 1970, Beck, by his own acts, made himself successor of Hydrocraft. As such, he acquired not only its assets but its liabilities.
>
> It is well-established that a transferee pendente lite may be added or substituted in place of the original party to the action. See cases cited in 3B Moore's Federal Practice, § 25.08, at 25-323 n. 7 & 8. (2d ed. 1977). In the instant case, the transfer of interest was pendente lite, that is, after entry of judgment but before the appeal was decided by this court. However, the transfer was secret, unknown to Panther until 1975, and Panther's motion could not have been filed earlier. Now that the facts are fully revealed, substitution is proper and should be effected in the interest of justice." (Pet. App. A43.)

4. Substitution Motion Was Procedurally Proper.

The paucity in substance of the petition is aptly demonstrated by the assertion that a motion under Rule 25(c) can not be made subsequent to entry of a judgment in an action. The Seventh Circuit rightly was unpersuaded by such arguments presented to it on appeal. Without conflict, Rule 25(c) has been construed as permitting substitution where appropriate after judgment, even in supplemental proceedings, where the action is pending. 3B *Moore's Federal Practice,* § 25.03[1] at 25-101-102; *U. S. for Use of Acme Granite & Tile Co.* v. *F. D. Rich Co., Inc.,* 437 F. 2d 549 (9th Cir. 1970). See also *Chief Consolidated Mining Co.* v. *Mammoth Mining Co.,* 29 F. 2d 703, 705 (8th Cir. 1928).

The matter of contempt in the action was pending before the district court and jurisdiction has previously been acquired over petitioner. Substitution was not barred by any statute of limitations. The Illinois statute of limitations cited by petitioner pertained to the Bulk Sales Act which was not remotely involved in the substitution matter.

CONCLUSION.

For the foregoing reasons, it is respectfully submitted this petition for a writ of certiorari should be denied.

Respectfully submitted,

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